

Agency 102

Department of Financial Institutions**Recommendation Summary**

Dollars in Thousands

	Annual FTEs	General Fund State	Other Funds	Total Funds
2003-05 Expenditure Authority	147.3		28,422	28,422
Total Maintenance Level	148.4		30,192	30,192
Difference	1.2		1,770	1,770
Percent Change from Current Biennium	0.8%		6.2%	6.2%
Performance Changes				
Middle Management Reduction	(1.6)		(167)	(167)
General Inflation			(84)	(84)
Financial and Accounting Fraud, Securities	3.5		808	808
Exam Enhancement, Banks	3.5		547	547
Exam Enhancement, Credit Unions	1.2		248	248
Exam Enhancement, Consumer Services	4.6		1,898	1,898
Information Technology Package	2.0		1,661	1,661
Communication, Outreach, and Education	2.0		360	360
Licensing, Consumer Services	2.3		298	298
Enforcement, Consumer Services	4.0		773	773
Subtotal	21.6		6,342	6,342
Total Proposed Budget	170.0		36,534	36,534
Difference	22.7		8,112	8,112
Percent Change from Current Biennium	15.4%		28.5%	28.5%
Total Proposed Budget by Activity				
Agency Management and Administrative Services	28.6		5,108	5,108
Chartering, Licensing and Registration	26.0		4,827	4,827
Education and Public Outreach	9.2		1,692	1,692
Enforcement	36.7		8,797	8,797
Examinations	71.1		15,599	15,599
Compensation Cost Adjustment			678	678
Middle Management Reduction	(1.6)		(167)	(167)
Total Proposed Budget	170.0		36,534	36,534

PERFORMANCE LEVEL CHANGE DESCRIPTIONS**Middle Management Reduction**

The Governor has directed that middle management be reduced by 1,000 positions by the end of the biennium. This item is this agency's share of the statewide amount.

Financial and Accounting Fraud, Securities

Resources are provided for the department to bring cases against companies that use fraudulent corporate and financial accounting techniques in connection with an offering of securities, or in communications with investors or financial markets. (Financial Services Regulation Account)

GOVERNMENTAL OPERATIONS

Exam Enhancement, Banks

The Division of Banks will increase its field examiner staff beginning in Fiscal Year 2006 to fulfill its statutory requirement to examine state-chartered financial institutions for safety and soundness purposes. The increase will also allow the division to expand its supervision and examination of state-chartered institutions that have been identified by federal regulators as having less than satisfactory Community Reinvestment Act or consumer compliance ratings, or having other identified issues. (Financial Services Regulation Account)

Exam Enhancement, Credit Unions

A consumer protection compliance specialist will be added to the Credit Union Division. During the past year, the federal regulator contacted the division to require credit union compliance of federally-mandated consumer protection laws, including anti-terrorism laws. (Financial Services Regulation Account)

Exam Enhancement, Consumer Services

The Division of Consumer Services requires additional resources to enter into personal service contracts in the 2005-07 Biennium. These increased resources expand the division's examination capacity in its four programs: consumer loan companies, mortgage brokers, check cashiers and sellers (payday lenders), and money transmitters and currency exchangers. Also, external auditors will be able to perform special audits of predatory practices and emerging issues such as stored value electronic payment systems and Internet-based financial transactions. (Financial Services Regulation Account)

Information Technology Package

The Department of Financial Institutions (DFI) requires additional resources to continue its efforts to develop a completely integrated and comprehensive regulatory database system. DFI will purchase and deploy an agency-wide technology infrastructure that will expand imaging to new areas of the agency, support document retention, and workflow management. Examination and enforcement activities will be improved by developing or purchasing tools that will scan, read, and store information from bank statements, manage investigative cases, collect and analyze financial information, and improve the capacity to perform computer forensics on confiscated computers. (Financial Services Regulation Account)

Communication, Outreach, and Education

DFI needs allotment authority to expand its consumer outreach, education, and communications functions. Increased allotment authority will allow the department to address the need for consumer education and outreach about financial fraud issues. It also will aid in generating greater public awareness of DFI's role and the protections and services offered to Washington State citizens. (Financial Services Regulation Account)

Licensing, Consumer Services

The Division of Consumer Services will improve consumer protection and service to licensees and license applicants by scrutiny of applicants and reducing application review turn-around times. (Financial Services Regulation Account)

Enforcement, Consumer Services

The Division of Consumer Services will expand its capacity to enforce state financial regulation and consumer protection laws. This will enable the division to increase regulatory oversight on sub-prime lending by consumer loan companies, mortgage brokers, and payday lenders, and money laundering and criminal activity by money transmitters and currency exchangers. (Financial Services Regulation Account)

ACTIVITY DESCRIPTIONS

Agency Management and Administrative Services

The Administration Division provides administrative and technical services for the Department of Financial Institutions. Activities include policy and legal advice; communications; human resources, financial and budgeting services; and information systems. The activities provide the support and framework to effectively carry out the department's mission.

Chartering, Licensing and Registration

The Department of Financial Institutions evaluates and approves for banks and credit unions: new applications, mergers, conversions, branches, and corporate governance changes. The department also conducts licensing, registration, and exemption activities for the following financial entities and persons: broker dealers, broker dealer representatives, investment advisers, investment adviser representatives, securities issuers, franchises, franchise brokers, business opportunities, escrow agents, escrow officers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, and consumer loan companies.

Education and Public Outreach

The department conducts consumer education and stakeholder outreach activities and provides technical assistance and regulatory guidance to banks, credit unions, securities and consumer lending industry participants. Activities may include, but are not limited to: presentations, town meetings, press conferences, technical assistance, advisory letters and bulletins, addressing consumer concerns, and all other related activities that provide education and information to assist consumers and other stakeholders.

Enforcement

The department conducts various types of supervisory, surveillance, and enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions. Activities include: complaint processing, investigation, and appropriate action against securities issuers and brokers, investment advisers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, consumer loan companies and escrow agents; and investigation and appropriate actions against banks and credit unions. Coordination and assistance to other law enforcement agencies and prosecutors, and providing testimony in courts of law are additional activities associated with enforcement.

Examinations

The department performs several types of examinations. The three primary examinations are: (1) Compliance and for-cause examinations of securities broker dealers, mortgage brokers, mortgage broker dealers, investment advisers, escrow agents, escrow officers, debenture companies, check cashers and sellers (payday lenders), consumer loan companies, money transmitters, and currency exchangers; (2) Safety and soundness examinations of banks, credit unions, debenture companies, money transmitters, trust companies, Small Business Association (SBA) lenders, and industrial development corporations; and (3) Information system examinations of banks and credit unions.

Compensation Cost Adjustment

This item reflects proposed compensation and benefit cost adjustments that were not allocated to individual agency activities. The agency will assign these costs to the proper activities after the budget is enacted.

Middle Management Reduction

The Governor has directed that middle management be reduced by 1,000 positions by the end of the biennium. This item is this agency's share of the statewide amount. These savings will be assigned to the appropriate activities after the budget is enacted.